3/8/88 A6710-1

National Association of Purchasing Management

Report On Business®

March 7, 1988
Volume 6, Number 3

Purchasing Index slips to 54.9%

Growth of new orders off

33% say export orders higher

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

The *Report on Business* is based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

February Report

The economy continued to grow in February, but at a slower pace than in January, say the nation's purchasing managers in their latest **Report on Business.** Production growth remained healthy; however, the new order growth rate was decidedly weaker than last month's strong performance. Vendor deliveries continued to slow but were not the problem they had been for the previous five months. Although inventories grew slightly, considering normal seasonal variations, they were actually lower. Employment increased for the seventh consecutive month at a slightly higher rate than in January. Prices continued to increase at about the same pace. Of those members whose companies export, 33% said their export orders were higher in February; only 6% said they were lower.

The report was issued today by Robert J. Bretz, C.P.M., chair of the National Association of Purchasing Management's Business Survey Committee and director of materials management at Pitney Bowes, Inc. Said Bretz: "Although the growth in the economy in February is still healthy, the pace of that growth is unquestionably slower than we experienced in the fourth quarter of 1987. Nevertheless, despite expected production slowdowns in March, the first quarter's economy should still register a respectable increase."

The **Purchasing Managers' Index** slipped to 54.9% in February, down from 57.4% in January. February was the 19th consecutive month this leading indicator has exceeded 50%. These numbers reflect an update by the U.S. Department of Commerce of the seasonal adjustment factors used to calculate the Purchasing Managers' Index. February's 54.9% is the lowest the index has been since April 1987 (54.7%). A reading above 50% indicates that the economy is generally expanding; below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference, the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Although February was the seventh consecutive month employment grew, the rate of growth in February and January was not as strong as in the fourth quarter of 1987.

Employment	% Higher	% Same	% Lower	Net
February	15	73	12	+3
January	13	75	12	+1
December	16	75	9	+7

Buying Policy

Lead times for production materials lengthened slightly in February, with 49% of members reporting lead times of 30 days or fewer, down from 52% in January. Lead times for capital expenditures shortened somewhat, with 54% of members reporting lead times of six months or more, down from 56% in January, but the same as in December and November 1987. Lead times for maintenance, repair and operating (MRO) supplies were slightly longer in February; 34% of members reported buying hand-to-mouth, down from 36% in January and the second-lowest percentage to so report since November 1984 (29%).

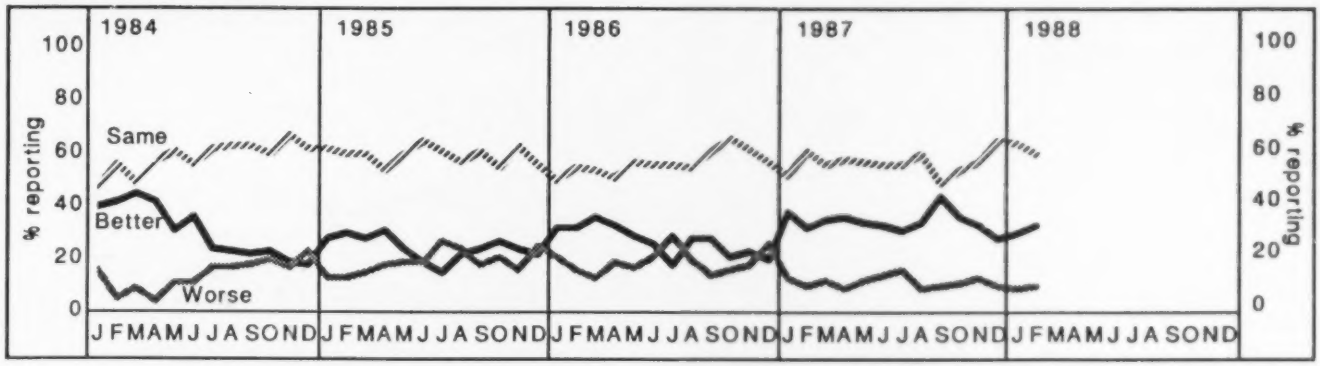
Percent Reporting

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
February	13	36	28	19	4
January	14	38	23	19	6*
December	14	37	23	19	7
MRO Supplies					
February	34	51	12	3	0
January	36	48	12	3	1
December	33	50	12	3	2
Capital Expenditures					
February	10	5	14	17	54
January	10	5	16	13	56
December	8	8	11	19	54

*The January **Report on Business** (Volume 6, Number 2) incorrectly reported that 2% of survey respondents reported lead times of six months or longer for production materials in January. The correct percentage appears here.

Report on Business is published by the National Association of Purchasing Management, Inc., 2055 East Centennial Circle, Post Office Box 22160, Tempe, Arizona 85282-0960. Telephone: 602/752-NAPM (752-6276). Telecopier: 602/752-7890. Distributed 12 times a year to N.A.P.M. members. Additional subscriptions are $50 a year for members, $100 for nonmembers. Add $25 outside the United States, Canada and Mexico.

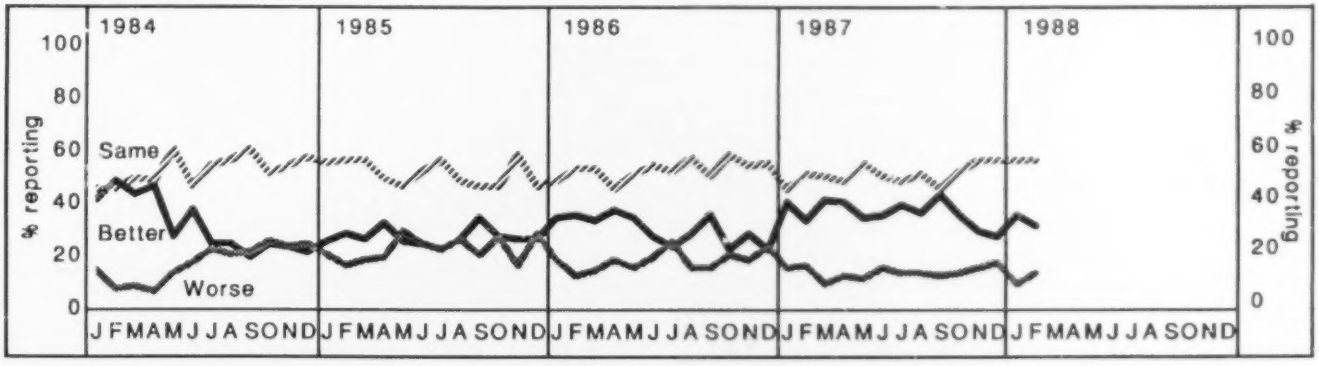
Production



February marked the 14th consecutive month of growth in production. The rate of growth remained strong, even considering normal seasonal factors. Nevertheless, production growth is decidedly slower than it was in the robust fourth quarter of 1987.

Production	% Better	% Same	% Worse	Net
February	32	59	9	+23
January	29	63	8	+21
December	27	64	9	+18

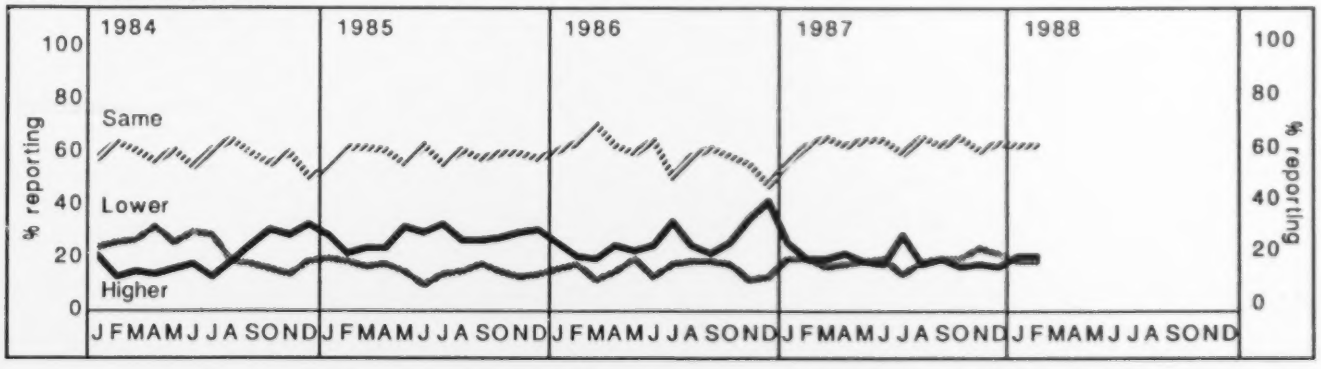
New Orders



February was the 14th consecutive month of growth in new orders. The difference (+ 18) between those reporting better new orders (31%) and worse (13%) is the lowest since February 1987 (17%) and indicates slowing production in March. The fact that 33% of exporting companies reported new export orders were higher than in January indicates that economic growth is still being spurred by vigorous expansion in exports. This in turn should result in lower trade deficits.

New Orders	% Better	% Same	% Worse	Net
February	31	56	13	+18
January	35	56	9	+26
December	27	56	17	+10

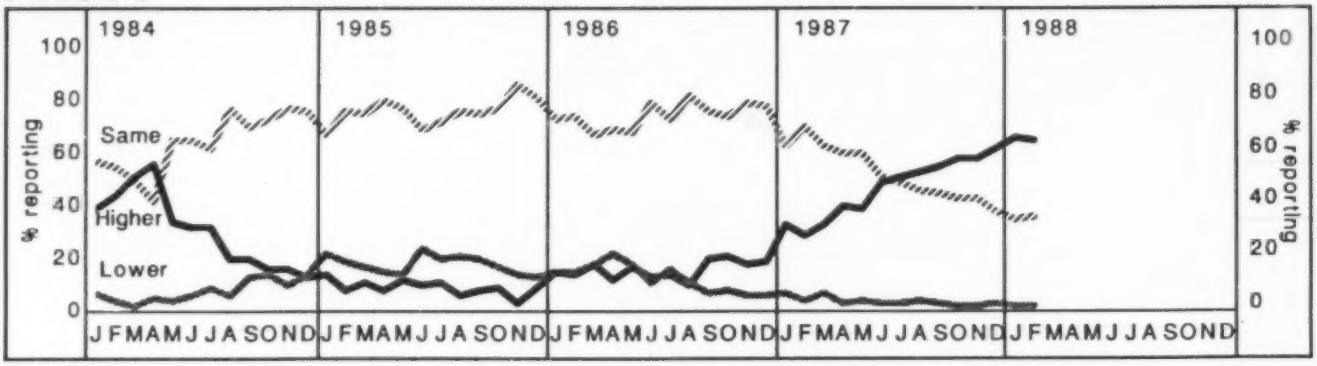
Inventories



For the second consecutive month, more members reported higher inventories (20%) than lower (18%). Because inventories traditionally increase at a greater rate in February, this month's slight increase could be considered a reduction. Attempts to reduce inventories remain the general rule.

Inventories	% Higher	% Same	% Lower	Net
February	20	62	18	+2
January	20	62	18	+2
December	16	63	21	−5

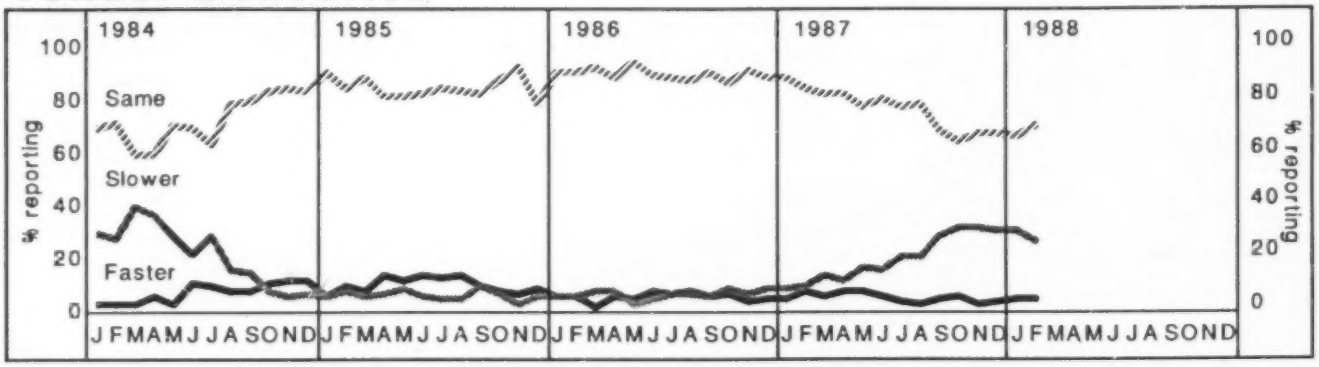
Prices


1984
1985
1986
1987
1988
100
80
60
40
20
0
% reporting
Same
Higher
Lower
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D

February marked the 18th consecutive month more purchasing managers reported higher prices (64%) than lower (1%). Although this is the most to report higher prices since January 1981 (also 64%), there are subtle signs that increases may be plateauing.

Prices	% Higher	% Same	% Lower	Net
February	64	35	1	+63
January	65	34	1	+64
December	61	37	2	+59

Vendor Deliveries


1984
1985
1986
1987
1988
100
80
60
40
20
0
% reporting
Same
Slower
Faster
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D

February was the 17th consecutive month more purchasers reported slower vendor deliveries (26%) rather than faster (4%). Although members continued to be plagued with shortages in certain commodities, it appears these shortages are fewer and the slowing in deliveries is easing.

Vendor Deliveries	% Faster	% Same	% Slower	Net
February	4	70	26	−22
January	4	66	30	−26
December	3	67	30	−27

Specific Commodity Changes

UP IN PRICE: Corrugated shipping containers (22nd time in 23 months), paper products, printing paper (12th time in 14 months), caustic soda (15th consecutive month; used heavily in paper-making and petroleum refining), rayon (second consecutive month), nylon, aluminum (13th consecutive month), aluminum extrusions, brass (fourth consecutive month), brass products (second consecutive month), steel (17th time in 18 months), steel castings (fifth consecutive month), stainless steel (second consecutive month), zinc (second consecutive month), steel scrap, steel products (fourth consecutive month), acetic acid (second consecutive month; used heavily in plastic production), polyethylene (eighth time in nine months), ethylene and ethylene derivatives (sixth time in seven months; used heavily in making plastic resins), plastic resins (eighth time in nine months), plastic products (ninth time in 10 months), methanol (third consecutive month; used heavily as a solvent and in synthesizing other chemicals), miscellaneous chemicals (fifth consecutive month) and bearings.

DOWN IN PRICE: Fuel oil (third consecutive month), natural gas and corn syrup.

IN SHORT SUPPLY: Aluminum (particularly foil; fifth consecutive month), copper (third consecutive month), steel (11th time in 12 months), hot- and cold-rolled sheets (10th consecutive month), steel plates (seventh time in eight months), stainless steel (second consecutive month), bearings, caustic soda (ninth consecutive month), acetic acid (third consecutive month), ethylene and ethylene derivatives (third consecutive month), plastic resins (fourth consecutive month), phenol (used in making plastic products for housing and auto products), styrene (used chiefly in making synthetic rubber, resins and plastics), methanol (third consecutive month; caused primarily by a plant fire), methyl-ethyl-ketone (a chemical solvent) and titanium dioxide (seventh consecutive month; a lead-free pigment used heavily as a whitener in coatings, paper and other industrial applications).

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in six important categories of data: production, new orders, inventories, prices, vendor deliveries and employment. These six components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the six components of *Report on Business* listed above, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the Department of Commerce and is the only part of the report adjusted for seasonal variations.

The next issue of *Report on Business* will be available April 4, 1988.

Commodity Reports

Energy

Prepared by the N.A.P.M. Energy Committee: Chair, Howard T. Perley, C.P.M., International Paper Company, Memphis, Tennessee.

Natural Gas: To buy discount-priced gas from sources other than your local gas utility, you have several choices. You can buy directly from a producer, directly from an interstate pipeline company, directly from an independent gas marketer, through a broker, or any combination of the above. Your local gas utility may even have an affiliated marketing company that is willing to sell you gas at a price lower than the utility itself charges. If you decide to buy from a producer, select one close enough to minimize pipeline transportation charges. For a more dependable and steady gas supply, you may do better by signing up with a gas marketer that supplies a number of customers and owns a large pool of gas. Be wary of brokers who do not own any gas, but act only as middlemen. Avoid shopping around month-by-month for the lowest possible prices. You might not be able to get any gas in a month when supplies are tight. Try to negotiate fixed prices for longer periods — say three to 12 months. (*Ian G. Mackenzie, C.P.M., Corning Glass Works, Corning, New York*)

Electricity: During 1988 the Federal Energy Regulatory Commission is expected to issue its rulemakings on competitive bidding for electric generating capacity. The rulemakings will address deregulation in the electricity industry, bulk power markets, transmission pricing and access. All issues, like the deregulation of natural gas, will generate much public comment and could be challenged in court. The issues are complex and testimonies from regulatory commissions, utilities, industrial users, and cogenerators will place the rulemakings into a priority position throughout the year. (*Judith K. Perry, International Paper Company, Memphis, Tennessee*)

Petroleum Products: The OPEC members probably will sell more than their production quotas in 1988 to generate as much revenue as possible because of their budget problems. However, if the Middle East war escalates and the crude oil supply from the Persian Gulf vanishes, increases will be experienced. Residual fuel prices through 1987 were fairly strong, but during the 1987–1988 winter Europe has had mild temperatures. This has caused foreign residual fuel to come into the U.S. to hold prices down although the U.S. is having a harsh winter. Residual fuel prices should be competitive with natural gas through May. (*Gary Chestnut, Ag Processing Inc., Omaha, Nebraska*)

Coal: Although details of the UMWA agreement may not be finalized for some time, the provisions are directed primarily toward job security, which should not affect supply or price to any great extent. The market remains on the buyer's side. However, it is unknown just how many more price concessions can be realistically obtained, so savings should be investigated through transportation reductions as well. (*Judith K. Perry, International Paper Company, Memphis, Tennessee*)

Steel

Prepared for the N.A.P.M. Steel Committee by R. C. Smith, Kelsey-Hayes Company, Romulus, Michigan.

The domestic steel industry seems to be off to a flying start for 1988. Order books are full, production is running around the clock and, most important for the financial health of the industry, prices have increased substantially, which should result in significant profit improvement for 1988.

Of the many reasons that have caused this remarkable turnaround, the most noteworthy are: (1) the devaluation of the dollar; (2) the improved labor contracts that are now in place; and (3) the continued rationalization of obsolete facilities and/or unprofitable operations. In the long run the most significant of these is the continued rationalization of unprofitable operations, coupled, of course, with the continued modernization of currently profitable segments. If the domestic steel industry is to stay profitable over the long haul, it must shed another 18 to 20 million tons of raw steel-making capacity and solidify its position in the markets and products that are the most profitable.

Today's scenario in the domestic marketplace is for a continuing upward trend of prices for the first part of 1988. As in previous tight supply periods, the offshore products are now considerably more expensive than the domestic products. But, for the first time in recent years, we have a leaner, more-modern, world-competitive domestic industry that, if it continues to follow its current course of action, will become the low-cost producer for the world market for some time to come.

Largely due to the continuing strength in the automotive, appliance and construction equipment sectors, the supply of flat rolled products will remain tight through the first quarter. Lead times on all products, however, should remain stable through the first quarter.

Even though the weakening of the value of the dollar, expected strong domestic consumption levels, and voluntary restraint agreements will continue to play their part in the supply/demand picture for steel, the continued optimization of our steel industry is the key to the mills' profitability.

It is, therefore, time to look to the domestic market for long-term price stability. There will, of course, be fluctuations in the marketplace, but it appears that our domestic steel industry is turning the corner and will be leading the competition worldwide in the future.